

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT  
OF  
CITY OF VALPARAISO UTILITIES  
PORTER COUNTY, INDIANA  
January 1, 2013 to December 31, 2013



**FILED**  
11/13/2014



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-12 to 12-31-15
Mayor	Jon Costas	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Jon Costas	01-01-12 to 12-31-15
President of the Common Council	Jan Dick	01-01-13 to 12-31-14
President of the Utilities Board	David Bengs	01-01-13 to 06-30-15
Director of Utilities	Steve Poulos	01-01-13 to 12-31-14
Controller of Utilities	Richard Freeman Alina Hahn	01-01-13 to 07-26-13 07-27-13 to 12-31-14



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF VALPARAISO UTILITIES, PORTER COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the City of Valparaiso Utilities (Utilities), departments of the City of Valparaiso, as of and for the year ended December 31, 2013. The Utilities management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Except as discussed in the following paragraph, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Valparaiso as of December 31, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We were unable to examine the Other Post-Employment Benefits Payable since management had not performed an analysis of the future costs associated with Other Post-Employment Benefits allowed. We were unable to apply alternative procedures to satisfy ourselves as to whether or not a material liability should have been included on the financial statements as well as the required note disclosures for Other Post-Employment Benefits.

In our opinion, except for the effects on the financial statements, if any, of not being able to obtain sufficient exam evidence as discussed in the paragraph above, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Valparaiso Utilities of the City of Valparaiso, as of December 31, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

September 9, 2014

CITY OF VALPARAISO UTILITIES  
STATEMENT OF NET POSITION  
December 31, 2013

<u>Assets</u>	2013	
	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	\$ 770,205	\$ 769,667
Accounts receivable (net of allowance)	365,172	499,751
Other receivables	93,150	-
Collections held for others	116,947	-
Inventories	120,514	127,463
Total current assets	1,465,988	1,396,881
Noncurrent assets:		
Restricted cash, cash equivalents, and investments:		
Revenue bond covenant account	597,342	456,168
Improvement	1,541,322	1,318,267
Reserve for SRF loan	-	969,633
Construction account	125,087	-
Customer deposits	169,966	-
Total restricted assets	2,433,717	2,744,068
Capital assets:		
Land, improvements to land, and construction in progress	410,590	575,915
Other capital assets (net of accumulated depreciation)	45,690,835	41,859,778
Total capital assets	46,101,425	42,435,693
Total noncurrent assets	48,535,142	45,179,761
Total assets	50,001,130	46,576,642

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES  
STATEMENT OF NET POSITION  
December 31, 2013  
(Continued)

<u>Liabilities and Equity</u>	2013	
	Water	Water Reclamation
Current liabilities:		
Accounts payable	\$ 156,647	\$ 195,506
Retainage payable	5,529	42,048
Taxes payable	22,182	-
Accrued wages and benefits payable	65,613	62,922
Compensated absences	6,636	5,233
Current liabilities payable from restricted assets:		
Customer deposits payable	169,966	-
Revenue bonds payable (current)	455,000	20,000
SRF loan	-	793,000
Leases payable	61,569	84,056
Accrued interest payable	32,867	240,292
	976,009	1,443,057
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of discount)	6,629,391	10,811,796
SRF loan payable	-	8,590,080
Compensated absences payable	145,569	114,798
	6,774,960	19,516,674
Total noncurrent liabilities		
Total liabilities	7,750,969	20,959,731
<u>Net Position</u>		
Invested in capital assets, net of related debt	38,955,465	22,136,761
Restricted for debt service	597,342	1,425,801
Restricted for other purposes	1,953,322	1,318,267
Unrestricted	744,032	736,082
	\$ 42,250,161	\$ 25,616,911
Total net position		

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
As of and for the Year Ended December 31, 2013

	2013	
	Water	Water Reclamation
Operating revenues:		
Metered water revenue:		
Residential	\$ 2,551,087	\$ -
Commercial	777,783	-
Industrial	213,382	-
Multiple family dwellings	775,539	-
Public authorities	138,590	-
Water reclamation collection and treatment revenue	-	6,671,662
Fire protection revenue	792,980	-
Penalties	53,695	57,027
Other water revenue	694,259	-
Other	-	288,049
	<u>5,997,315</u>	<u>7,016,738</u>
Operating expenses:		
Transmission and distribution	1,141,919	-
Pumping - operations and maintenance	748,524	69,775
Treatment and disposal - operations and maintenance	493,709	-
Customer accounts	698,508	-
Administration and general	816,847	1,183,290
Reclaimed water treatment - operations and maintenance	-	2,093,878
Reclaimed water distribution - operations and maintenance	-	1,155,506
Depreciation	1,153,458	3,138,937
Miscellaneous expenses	145,208	-
	<u>5,198,173</u>	<u>7,641,386</u>
Total operating expenses		
	<u>5,198,173</u>	<u>7,641,386</u>
Operating income (loss)	<u>799,142</u>	<u>(624,648)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	6,443	3,101
Miscellaneous revenue	178,175	-
Interest expense	(347,787)	(942,297)
Bond refunding expenses	(124,056)	(72,063)
Transfers	55,177	(55,270)
	<u>232,048</u>	<u>(1,066,529)</u>
Total nonoperating revenues (expenses)		
	<u>(232,048)</u>	<u>(1,066,529)</u>
Income (loss) before contributions and transfers	<u>567,094</u>	<u>(1,691,177)</u>
Contributions and transfers:		
Capital contributions	241,248	58,000
In lieu of taxes	(334,643)	(346,845)
	<u>(93,395)</u>	<u>(288,845)</u>
Total contributions and transfers		
	<u>(93,395)</u>	<u>(288,845)</u>
Change in net position	473,699	(1,980,022)
Total net position - beginning	41,874,027	27,688,875
Total net position - adjustment	(97,565)	(91,942)
Total net position - ending	<u>\$ 42,250,161</u>	<u>\$ 25,616,911</u>

The notes to the financial statements are an integral part of this statement.

Adjustment for GASB 65 elimination of deferred charges	\$ (90,778)	\$ (91,942)
Adjustment to reconcile capital assets to capital asset detail	(162,371)	-
Adjustment for capital asset retirements	155,584	-
Totals	<u>\$ (97,565)</u>	<u>\$ (91,942)</u>



CITY OF VALPARAISO UTILITIES  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As of and for the Year Ended December 31, 2013

	2013	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 5,989,616	\$ 7,000,063
Payments to suppliers and contractors	(4,008,165)	(4,315,091)
Net cash provided by operating activities	1,981,451	2,684,972
Cash from noncapital financing activities:		
Nonoperating receipts	178,175	-
Transfers in (out)	55,177	(55,270)
In lieu of taxes	(334,643)	(346,845)
Net cash provided (used) by noncapital financing activities	(101,291)	(402,115)
Cash flows from capital and related financing activities:		
Capital contributions	241,248	58,000
Acquisition and construction of capital assets	(1,360,971)	(509,662)
Bond proceeds	4,930,000	8,245,000
Deposit to bond redemption account	(4,935,369)	(8,580,578)
Bond issuance costs	(77,683)	(72,063)
Principal paid on capital debt	(445,000)	(1,024,000)
Interest paid on capital debt	(335,203)	(902,362)
Principal paid on capital lease	(59,805)	(105,513)
Net cash provided (used) by capital and related financing activities	(2,042,783)	(2,891,178)
Cash flows from investing activities:		
Interest received	6,443	3,101
Net increase in cash and cash equivalents	(156,180)	(605,220)
Cash and cash equivalents, January 1	3,360,102	4,118,955
Cash and cash equivalents, December 31	\$ 3,203,922	\$ 3,513,735
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 799,142	\$ (624,648)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,153,458	3,138,937
(Increase) decrease in assets:		
Accounts receivable	13,330	(34,431)
Other receivables	(21,029)	-
Interfund receivable	-	17,756
Inventories	(17,303)	64,165
Prepaid items	1,015	864
Increase (decrease) in liabilities:		
Accounts payable	99,373	54,377
Taxes payable	2,359	-
Accrued wages and benefits payable	16,408	20,407
Compensated absence payable	(13,239)	5,497
Interfund payables	(17,756)	-
Customer deposits	(39,836)	-
Retainage payable	5,529	42,048
Total adjustments	1,182,309	3,309,620
Net cash provided by operating activities	\$ 1,981,451	\$ 2,684,972

On December 5, 2013, the City of Valparaiso Water Utility issued \$4,930,000 in refunding revenue bonds to refund \$4,875,000 of outstanding 2002 series bonds. The net proceeds of \$4,912,745 and local contributions of \$22,624 were deposited in an irrevocable trust with an escrow agent.

On December 19, 2013, the City of Valparaiso Water Reclamation Utility issued \$8,245,000 refunding SRF loan to refund \$8,403,000 of outstanding 2000 series SRF loan. The net proceeds of \$8,146,006 and local contributions of \$434,572 were deposited in an irrevocable trust with an escrow agent.

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Valparaiso (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Utility's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utility to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

The deferred compensation plan amounts are invested with a bank. The bank offers a range of investments and the participants choose how their earnings are invested.

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method.

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants.

The financial statements report \$2,433,717 and \$2,744,068 for the Water and Water Reclamation Utilities, respectively, of restricted net assets, of which all is restricted by enabling legislation.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method
Water Utility:		
Buildings	\$ 5,000	2% Composite rate
Improvements other than buildings	5,000	2% Composite rate
Machinery and equipment	5,000	2% Composite rate
Water Reclamation Utility:		
Buildings	5,000	2% Composite rate
Improvements other than buildings	5,000	5% Composite rate
Distribution and collection systems:		
Sewer lines	5,000	1% Composite rate
Treatment center	5,000	5% Composite rate
Machinery and equipment:		
Pumping equipment	5,000	5% Composite rate
Transportation equipment	5,000	20% Composite rate
Office furniture and equipment	5,000	20% Composite rate
Machinery and equipment	5,000	10% Composite rate

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Compensated Absences

The policy on compensated absences, which includes all leave as paid time off, was adopted by the Utilities on July 31, 2007. Paid time off may be used for vacation, sick, family illness, and personal business. Paid time off is accrued on the first day of the month following an employee's hire date. Utility employees earn paid time off rates from 96 to 264 hours per year based upon the number of years of service and regularly scheduled work hours.

Upon termination of employment, an employee may be paid for unused accrued paid time off. The maximum paid time off an employee will be eligible to receive is 240 hours for an employee who is regularly scheduled to work 40 hours per week.

A liability is reported by the Utilities for paid time off.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2013, the Water and Water Reclamation Utilities had deposit balances in the amount of \$3,203,922 and \$3,513,735, respectively.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>2013</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 380,590	\$ 30,000	\$ -	\$ 410,590
Total capital assets, not being depreciated	<u>380,590</u>	<u>30,000</u>	<u>-</u>	<u>410,590</u>
Capital assets, being depreciated:				
Buildings	4,342,396	81,490	(29,093)	4,394,793
Improvements other than buildings	34,564,426	1,028,675	(135,057)	35,458,044
Machinery and equipment	<u>17,593,020</u>	<u>240,534</u>	<u>(13,482)</u>	<u>17,820,072</u>
Totals	<u>56,499,842</u>	<u>1,350,699</u>	<u>(177,632)</u>	<u>57,672,909</u>
Less accumulated depreciation for:				
Buildings	(895,533)	(87,896)	-	(983,429)
Improvements other than buildings	(7,590,228)	(709,161)	135,057	(8,164,332)
Machinery and equipment	<u>(2,491,395)</u>	<u>(356,401)</u>	<u>13,483</u>	<u>(2,834,313)</u>
Totals	<u>(10,977,156)</u>	<u>(1,153,458)</u>	<u>148,540</u>	<u>(11,982,074)</u>
Total capital assets, being depreciated, net	<u>45,522,686</u>	<u>197,241</u>	<u>(29,092)</u>	<u>45,690,835</u>
Total capital assets, net	<u>\$ 45,903,276</u>	<u>\$ 227,241</u>	<u>\$ (29,092)</u>	<u>\$ 46,101,425</u>
<u>2013</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 575,915	\$ -	\$ -	\$ 575,915
Construction in progress	<u>143,876</u>	<u>-</u>	<u>(143,876)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>719,791</u>	<u>-</u>	<u>(143,876)</u>	<u>575,915</u>
Capital assets, being depreciated:				
Buildings	21,175,883	2,038	-	21,177,921
Improvements other than buildings	12,406,403	-	-	12,406,403
Machinery and equipment	10,277,977	231,797	(2,274)	10,507,500
Distribution and collection systems	<u>50,726,898</u>	<u>492,243</u>	<u>(150,506)</u>	<u>51,068,635</u>
Totals	<u>94,587,161</u>	<u>726,078</u>	<u>(152,780)</u>	<u>95,160,459</u>
Less accumulated depreciation for:				
Buildings	(4,497,310)	(423,558)	-	(4,920,868)
Improvements other than buildings	(11,136,805)	(248,128)	-	(11,384,933)
Machinery and equipment	(10,363,791)	(1,061,269)	13,561	(11,411,499)
Distribution and collection systems	<u>(24,177,399)</u>	<u>(1,405,982)</u>	<u>-</u>	<u>(25,583,381)</u>
Totals	<u>(50,175,305)</u>	<u>(3,138,937)</u>	<u>13,561</u>	<u>(53,300,681)</u>
Total capital assets, being depreciated, net	<u>44,411,856</u>	<u>(2,412,859)</u>	<u>(139,219)</u>	<u>41,859,778</u>
Total capital assets, net	<u>\$ 45,131,647</u>	<u>\$ (2,412,859)</u>	<u>\$ (283,095)</u>	<u>\$ 42,435,693</u>

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Depreciation expense was charged to functions/programs of the Utilities as follows:

	2013
Water	\$ 1,153,458
Water Reclamation	\$ 3,138,937

C. Leases

Capital Leases

The Water Utility has entered into a capital lease for a Vactor Hydro Excavator, and the Water Reclamation Utility entered into capital leases for a Tandem Dump Truck and a Vactor Truck. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2013, are as follows:

	Water Utility	Water Reclamation Utility
2014	\$ 63,635	\$ 85,764
Less amount representing interest	2,066	1,708
Present value of net minimum lease payments	\$ 61,569	\$ 84,056

Assets acquired through capital leases still in effect are as follows:

	Water Utility	Water Reclamation Utility
Machinery and equipment	\$ 235,000	\$ 397,059
Accumulated depreciation	(14,100)	(172,344)
Totals	\$ 220,900	\$ 224,715

D. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
Water Utility:				
2010 Water Utility: Improvements	1% - 4.25%	\$ 2,180,000	\$ 25,609	\$ 2,154,391
2013 Water Utility: Improvements	2.17%	<u>4,930,000</u>	-	<u>4,930,000</u>
Totals		<u>\$ 7,110,000</u>	<u>\$ 25,609</u>	<u>\$ 7,084,391</u>
Water Reclamation Utility:				
2007 Water Reclamation Utility: Improvements	4.0% - 5.0%	\$ 10,880,000	\$ 48,204	\$ 10,831,796

Revenue bonds debt service requirements to maturity are as follows:

	Water		Water Reclamation	
	Principal	Interest	Principal	Interest
2014	\$ 455,000	\$ 174,692	\$ 20,000	\$ 502,150
2015	540,000	182,936	20,000	501,350
2016	550,000	171,057	20,000	500,525
2017	565,000	158,887	20,000	499,625
2018	575,000	146,336	20,000	498,725
2019-2023	2,890,000	532,682	3,505,000	2,330,500
2024-2028	<u>1,535,000</u>	<u>115,774</u>	<u>7,275,000</u>	<u>894,513</u>
Totals	<u>\$ 7,110,000</u>	<u>\$ 1,482,363</u>	<u>\$ 10,880,000</u>	<u>\$ 5,727,388</u>

2. Loans Payable

The Water Reclamation Utility has entered into various loan agreements (State Revolving Loan Fund (SRF)). Annual debt service requirements to maturity for the loans (based upon having drawn down all of the funds), including interest of \$1,118,798, are as follows:

	Water Reclamation Utility	
	Principal	Interest
2014	\$ 793,000	\$ 146,639
2015	1,155,000	189,454
2016	1,178,000	165,525
2017	1,200,000	141,097
2018	1,227,000	116,204
2019-2023	3,375,000	249,849
2024-2028	438,000	92,119
2029-2033	<u>300,000</u>	<u>17,912</u>
Totals	<u>\$ 9,666,000</u>	<u>\$ 1,118,798</u>

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

As of December 31, 2013, \$282,920 of funds had yet to be drawn down. The liability reported in the financial statements for loans payable is based upon the actual funds drawn as of December 31, 2013.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	\$ 7,500,000	\$4,930,000	\$5,320,000	\$ 7,110,000	\$ 455,000
Less: discount	<u>79,291</u>	<u>-</u>	<u>53,682</u>	<u>25,609</u>	<u>-</u>
Total revenue bonds payable	7,420,709	4,930,000	5,266,318	7,084,391	455,000
Capital lease	121,487	-	59,918	61,569	61,569
Compensated absences	<u>158,231</u>	<u>(6,026)</u>	<u>-</u>	<u>152,205</u>	<u>6,636</u>
Total long-term liabilities	<u>\$ 7,700,427</u>	<u>\$4,923,974</u>	<u>\$5,326,236</u>	<u>\$ 7,298,165</u>	<u>\$ 523,205</u>
Water Reclamation Utility:					
Revenue bonds payable	\$10,900,000	\$ -	\$ 20,000	\$10,880,000	\$ 20,000
Less: discount	<u>51,627</u>	<u>-</u>	<u>3,423</u>	<u>48,204</u>	<u>-</u>
Total revenue bonds payable	10,848,373	-	16,577	10,831,796	20,000
Loans payable	10,545,080	8,245,000	9,407,000	9,383,080	793,000
Capital lease	189,569	-	105,513	84,056	84,056
Compensated absences	<u>109,540</u>	<u>10,491</u>	<u>-</u>	<u>120,031</u>	<u>5,233</u>
Total long-term liabilities	<u>\$21,692,562</u>	<u>\$8,255,491</u>	<u>\$9,529,090</u>	<u>\$20,418,963</u>	<u>\$ 902,289</u>

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	<u>Water Utility 2013</u>	<u>Water Reclamation Utility 2013</u>
Customer deposits	\$ 169,966	\$ -
Improvement	1,541,322	1,318,267
Reserve for SRF loan	-	969,633
Revenue covenant account	597,342	456,168
Revenue bond construction account	<u>125,087</u>	<u>-</u>
Total restricted assets	<u>\$ 2,433,717</u>	<u>\$ 2,744,068</u>



CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2010 and 2013, respectively. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2022 and 2026, respectively. Annual principal and interest payments are expected to require less than 13 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$8,592,363. Principal and interest paid for the current year and total operating revenues were \$775,968 and \$5,997,315, respectively.

Water Reclamation Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2007. Proceeds from the bonds provided financing for wastewater collection and treatment system improvements. The bonds are payable solely from wastewater net revenues and are payable through 2027. Annual principal and interest payments are expected to require less than 8 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$16,607,388. Principal and interest paid for the current year total operating revenues were \$523,150 and \$7,016,738, respectively.

G. Refunding of Debt

2002 Series Water Bond Refunding

On December 5, 2013, the City of Valparaiso Water Utility issued \$4,930,000 in refunding revenue bonds with an interest rate of 2.17 percent to current refund \$4,875,000 of outstanding 2002 series bonds with an average interest rate of 4.5 percent. The net proceeds of \$4,912,745 (after payment of \$17,255 in issuance costs) and local contributions of \$22,624 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 series bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The refunding resulted in the accounting gain of \$26,555, which has been recognized in 2013. The City of Valparaiso Water Utility in effect lowered its aggregate debt service payment by \$529,683 over the next nine years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$502,433.

2000 Series Water Reclamation SRF Loan Refunding

On December 19, 2013, the City of Valparaiso Water Reclamation Utility issued \$8,245,000 refunding SRF loan with an interest rate of 1.99 percent to current refund \$8,403,000 of outstanding 2000 series SRF loan with an average interest rate of 3.90 percent. The net proceeds of \$8,208,643 (after payment of \$36,357 in issuance costs) and local contributions of \$371,935 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 series SRF loan. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The refunding resulted in no accounting gain/loss. The City of Valparaiso Water Reclamation Utility in effect lowered its aggregate debt service payment by \$464,502 over the next seven and a half years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$379,040.

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

To create cost savings, the City (including the Utilities) decided to offer other medical insurance alternatives on January 1, 2013. Covered participants were given a choice of either a Health Savings Account (HSA) with a high deductible or a Traditional PPO. Coverage is provided by United Healthcare in conjunction with the IACT Medical Trust.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on November 25, 2013.

2. Water Reclamation Utility

The current rate structure was approved by the Utility on November 25, 2013.

C. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Water Utility has a defined contribution pension plan administered by Centier Bank as authorized by Indiana Code 8-1.5-3-7. The employees of both the Water and Water Reclamation Utilities participate in the plan, which provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the governing board of the Utilities and the plan administrator. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Centier Bank  
4<sup>th</sup> Floor Wealth Management  
600 East 84<sup>th</sup> Avenue  
Merrillville, IN 46410-6366  
Phone (219) 755-6110

CITY OF VALPARAISO UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Funding Policy and Annual Pension Cost

The plan provides for up to 6 percent salary contributions per pay by the employees to be matched 100 percent by the employer. The employee can also make additional voluntary contributions allowable by applicable IRS rules. The additional contribution is not matched by the employer. Employer and employee contributions to the plan were \$161,953 and \$213,214, respectively.

D. Subsequent Events

Rate Increases

On November 25, 2013, ordinances were approved to increase both water and sewer rates. The water rates will increase in three phases starting on January 1, 2014, when rates will increase by 19.01 percent. On July 1, 2014, the rates will increase by 10.76 percent and the final phase will increase rates by 2.79 percent on January 1, 2016. The water reclamation rates will increase on the same schedule but will increase by 18 percent, 8 percent, and 4 percent, respectively.

Capital Assets

During 2014, utility management performed an inventory of capital assets and retired any assets below the capital asset threshold. This process is estimated to result in capital asset retirements of \$1 million in water capital assets and \$6 million in sewer capital assets.

Pratt

On September 17, 2013, Pratt Paper, a recycled paper and packaging company, announced plans to locate a paper mill in Valparaiso, Indiana. The mill will be a heavy water user at 1.3 million gallons per day and will discharge approximately .75 million gallons per day of sewage. Estimated revenues for both water and sewer are \$1.6 million per year and will be realized in the summer of 2015.

2014 Water and Water Reclamation Bond Issues

The Board of Directors of the City of Valparaiso Utilities has approved resolutions recommending the issuance of water and sewer bonds in 2014. It was recommended that waterworks revenue bonds in an amount not to exceed \$18 million be issued to assist in the funding of various water improvement projects such as additional wells, SCADA upgrades, filters, and piping. The sewage works revenue bonds were also recommended in an amount not to exceed \$2.6 million for improvements to the sanitary sewer collection system and treatment plant. These improvements include a new pump station, wet well, influent pumps, and piping.

Sublease of Public Works Building

A sublease between City of Valparaiso and City of Valparaiso Utilities has been approved for the Public Works building located at 1855 Joliet Road, Valparaiso, Indiana. The maximum annual rent to be paid during the term of the sublease shall not exceed \$139,000. The maximum term of the sublease is 17 years.

2014 PILOT increases

On November 26, 2013, the Board of Directors of the City of Valparaiso Utilities approved the 2014 budgets which include annual PILOT payments totaling \$759,643 for water and \$771,845 for sewer.

CITY OF VALPARAISO UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on September 9, 2014, with Steve Poulos, Director of Utilities; Alina Hahn, Controller of Utilities; David Bengs, President of the Utilities Board; Lori Schroeder, AP/Payroll Coordinator; Mary Woodworth, Customer Service and Billing Manager; and Peggy Busse, Administrative Assistant.